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FISCAL IMPACT STATEMENT

LS 7366

BILL NUMBER: SB 516

NOTE PREPARED: Jan 19, 2003

BILL AMENDED:

SUBJECT: Property tax exemptions.

FIRST AUTHOR: Sen. Zakas

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates acreage limitations for the property tax exemption for land used for certain exempt purposes. It also allows a church or religious institution in a certain township to file a claim for a refund for taxes due and payable in 2001.

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues: *Property Tax Exemption Land Limit:* The State levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base, as described below, will reduce the property tax revenue for these two funds. The revenue reduction is estimated at \$1,400 - \$1,500 per year beginning in CY 2005.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Property Tax Exemption Land Limit:* Under current law, up to 15 acres of land on which an exempt building sits (or will sit) is also exempt for most qualifying organizations. The current exceptions are educational institutions, which may exempt up to 150 acres, 4-H associations, which may exempt up to 200 acres, and tracts of land that were exempt on March 1, 1987.

Except for parsonages, this bill would eliminate the acreage limit for all entities that receive an exemption. The exemption for land under a parsonage would continue to be limited to 15 acres. The acreage limit elimination would first be effective with March 1, 2004 assessments and property taxes paid in 2005.

The additional exemptions would reduce the assessed value tax base. This would cause a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged in future years. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

County auditors were surveyed in August, 2002 to obtain information about qualifying organizations that own more than 15 acres of land. Thirty-seven of the ninety-two counties responded to that survey. Those counties that responded reported that the number of acres of land owned by qualifying organizations exceeding the 15 acre limit is just over 14,000 acres and that the 2002 property tax on that acreage was \$414,000. Seventeen counties reported no excess acreage and no tax due. The remaining reporting counties reported countywide tax due on this property ranging from a low of \$488 to a high of \$190,000, with half of the counties under \$5,000. Based on population and reported exemption levels from the county auditor abstracts, the statewide total acreage exceeding the 15 acre limit is estimated at 40,000 - 45,000 acres and the 2001 property tax on that acreage is estimated at \$1.2 M - \$1.4 M.

The current reassessment that takes effect with property taxes paid in 2003 coupled with the changes to net levies and assessments made in HEA 1001-2002(ss) will reduce the estimated shift. The assessed value of land was basically set at market value under the old assessment scheme. Therefore, the new AV of land should not change very much, except to account for market forces. The statewide average net tax rate, however, is expected to be reduced by an average of 42%. Taking these factors into consideration, the property tax shift statewide to other taxpayers is estimated at \$700,000 - \$800,000 if there were no acreage limit.

Refund: The bill would allow a church or religious institution in Harris Township, St. Joseph County to file for a refund of property taxes paid in 2001. The basis for the refund would be to apply the exemption that would be allowed under this proposal to churches and religious institutions in Harris Township for property taxes paid in 2001. This means that any religious organization in Harris Township that paid property tax in 2001 because its acreage exceeded 15 acres would be entitled to a refund of any taxes paid on the overage. The refunds would be paid with interest at an annual rate of 6%. Property tax refunds reduce the proceeds of current year taxes that are distributed to local civil taxing units and schools. The actual cost of the refunds depends on the amount of property over 15 acres in Harris Township that would qualify for an exemption under this proposal. There is no data currently available to estimate the amount of the refunds at the township level.

State Agencies Affected:

Local Agencies Affected: County auditors; Local civil units and school corporations.

Information Sources: Survey of county auditors, August, 2002.

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